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SAVILLS WORLD
RESEARCH

H1/2014

12 Cities

Real estate costs of living and working around the world



STREETS OF GOLD

The winners and losers in our exclusive world cities index

savills

The city X factor

Welcome to the new-look issue of this, our sixth survey of real estate in world cities. Welcome as well to Rio de Janeiro and Dubai, which have joined the 10 original cities this year to represent a growing interest by real estate investors in Latin America and the Middle East. The increasing importance of these property markets within their global region and their prominence on the world stage have earned them closer scrutiny in these pages.

Our definition of a world city is not only based on size or economic prosperity, but also other less tangible factors, such as fame, prominence, international reach and 'investability', which are not revealed by population and GDP figures alone. (By those measures, our index would be dominated by second-tier Chinese cities and sprawling US conurbations). We are interested in centres of human endeavour and innovation that attract international investors, particularly in real estate, over and above what might otherwise be expected due to socio-economic and geo-demographic factors alone.

This search for city 'je ne sais quoi' is illustrated in 'The Big Picture' feature (*page 14*) by the reference we have made to city prominence and international visitors, as well as global competitiveness and connectivity rankings. Other organisations also search for this city 'X factor'. For example, six of our world cities have been, or will be, host to the Olympic games.

It is interesting that 10 of our 12 cities have origins, sometimes ancient, as trading ports and harbours. While Moscow and Paris started life as more inward-looking river crossings and defensive sites, it is notable that they too lay on major trade routes.

All this leads us to conclude that it is often a cosmopolitan nature and an international outlook that makes cities globally investable and prosperous. Real estate purchase is an important element of inward investment as individuals and entities seek to own a piece of the world rather than just a piece of a particular country. Successful cities will continue to recognise this, while the imposition of long-term restrictions on international participation will risk damaging a city's world status. ■

**'We are
interested
in centres
of innovation
that attract
investors'**



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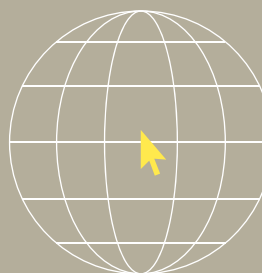
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**12 CITIES ONLINE**

For additional content, including a video presentation, please visit: www.savills.com/twelvecities

RESEARCH METHODOLOGY

In order truly to compare the cost of residential and commercial real estate across different global cities, we use the Savills Executive Unit (SEU), which measures the cost of housing an identical group of people living and working in different countries.

The people who make up our SEU include one middle-aged expat CEO, one senior expat director, a locally employed director and four locally employed

administrative staff. They each live in different types of household and each member of the group chooses different types of locations and different types of property in which to live.

To measure office costs, we place the same seven people in an office of a small financial services firm and again in a creative start-up – each located in the most appropriate district for their industry type.

Key trends that are impacting on world city property markets

COMMERCIAL

Urban impulse

Creative companies are moving out of the suburbs and into city centres

Across the globe young, footloose, creative people are escaping the suburbs and moving to urban centres. The tech industry is no exception. Silicon Valley may be the world's premier tech centre, but in recent years Valley firms have sought increasing amounts of space in downtown San Francisco. Wireless systems, the cloud and flexible working practices mean that major conglomerates no longer need huge offices for servers and staff – smaller units are just as viable.

Vibrant, mixed-use communities are at the heart of the new tech industry zeitgeist (*see fig.1*). The exchange of information and ideas is central to any creative industry, and tech is no exception. Creative clusters allow innovation to thrive. But it is not just innovation within a single company that is productive, the innovation of whole industries and the wider creative community makes a difference. This means the human interaction allowed by cities has become a key attraction in the search for workspaces by tech companies. Cafés, bars, shops, a variety of housing and low-cost office space provide the real estate foundation they seek.

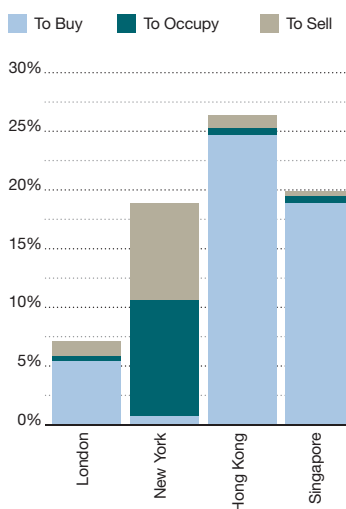
While the city trend is shaping tech companies, the tech trend is also shaping cities. In New York, the tech industry is the second biggest employer behind finance and real estate, accounting for a third of private sector job growth since 2007. The growth in the tech industry has gone hand in hand with the city's urban renaissance (*see page 19*).

Major global players, such as Google or Amazon, sit alongside small start-ups and more established medium-sized firms in newly regenerated locations. These companies are fast growing and seek flexible, non-traditional office space, pushing up rents in

FIG. 1: Location of tech hubs in world cities

| CITY | TECH HUB |
|----------------|--|
| Dubai | Silicon Oasis |
| Hong Kong | Cyberport/ HK Science Park |
| London | Silicon Roundabout |
| Moscow | Silicon Sloboda |
| Mumbai | The Knowledge Corridor |
| New York | Silicon Alley |
| Paris | La Halle Freyssinet |
| Rio de Janeiro | Silicon Beach |
| Shanghai | KIC (Knowledge and Innovation Community) |
| Singapore | Singapore Science Park |
| Sydney | SUPER Digital Precinct |
| Tokyo | Bit Valley |

FIG. 2: Cost of buying, occupying and selling a £2m residential property



Percentage of total property value. Overseas buyer holding for five years as an individual.

Source: Savills World Research

creative clusters faster than in more traditional office districts in some locations

In New York, rents for the space favoured by tech and creative firms are up 33% from a December 2010 low, compared to 20% for financial office space. In London, the city's major landlords are actively profiling their stock to appeal to this growth sector, while Singapore's 'shophouses' are proving attractive to tech start-ups looking for cheaper alternative space and have shown very high rental and capital growth.

Growing tech cities that offer a vibrant, creative urban scene will have a significant advantage in the world city race and should show superior real estate growth.

INVESTMENT

New money

Ultra-wealthy individuals are transforming investment behaviour

Over half of global big ticket real estate deals are now led by private wealth, such as sovereign wealth funds, private banks, family offices, wealth managers and private offices, rather than public companies and investing institutions.

Real estate currently accounts for around a fifth of the invested wealth of ultra high net worth individuals (UHNWIs) and the use of private equity in major property deals worth at least US\$10 million has nearly trebled since 2009. Around 3%, or US\$5.3 trillion, of the world's total real estate value is owned directly by 200,000 of the wealthiest individuals (0.003% of the global population).

These private owners are also very active in real estate that is held indirectly, through private companies and other entities, making them increasingly central to traded investable property. Since the debt crisis they have stepped into the property deals that corporate bankers have deserted.

Identifying the wealth factor

Value of real estate held by the world's richest buyers

\$180trn

The total value of the world's real estate

\$5.3trn

Value of real estate that is held by UHNWIs

199,235

Total number of UHNWIs

\$26.5m

Average value of real estate held by UHNWIs

Source: Savills World Research and Wealth-X



Above: Transaction rates have slowed in Hong Kong.
Top right: Dubai has introduced mortgage caps.



The willingness of private wealth to take the place of debt finance, or to take a higher-risk development position, is now making the difference between deals done or schemes mothballed. Around 35% of global big ticket deals (US\$10 million-plus) in 2012 were only possible because of private funding.

The behaviour of private wealth has the power to transform cities. Different investment criteria mean real estate projects that would not otherwise have been funded by corporate investors may now be possible. Convincing a private individual of a new development or regeneration story may be easier than persuading a corporate investment committee to do something new. At present, the big private investors favour urban real estate. Their preferences and behaviour will shape our global cities and increasingly determine which ones will be called 'world cities' in the future.

RESIDENTIAL

Cooling medicine

Measures to restrict property speculation have had mixed results

Residential property, an investible asset class in world cities, has attracted huge volumes of domestic and overseas investment. In some cities, the weight of money pressing on these markets means demand outstrips supply, pushing prices out of the reach of many local residents. The response has varied, but some governments have introduced taxes and duties to cool the market.

In Hong Kong and Singapore, the effects of new wealth generated in mainland China have led to the most penal charges – which appear to be working. Non-resident buyers in Hong Kong pay an additional 15% stamp duty. Coupled with the doubling of standard stamp duty in 2013 (8.5% on property over HK\$2 million) and duties of between 10%

and 20% of purchase price if the property is sold within three years of purchase, Hong Kong property now appears a less enticing investment. A side effect has been to push investors towards cheaper properties, putting pressure on the homes the majority of Hong Kong citizens aspire to own. The biggest effect of the measures has been on transaction volumes in the city's prime markets, with prices beginning to soften (*see page 17*).

In Singapore, a 15% duty on overseas buyers also applies. Duties ranging from 4% to 16% of the sale price apply if the property is sold within four years, pushing costs higher still. The city-state has also introduced rules to ensure that a buyer's monthly payments do not exceed 60% of their income. As in Hong Kong, the impact on transactions has been significant (*see page 21*).

These 'new world' taxes are under constant scrutiny and can be changed quickly in response to market conditions. In the cities of the West, when introduced, they tend to be more permanent. Sydney has long placed some restrictions on overseas home ownership. In London, the threat of a mansion tax would put the city further up the world cost rankings, but such a tax would have to be penal to rival the costs associated with real estate in Singapore and Hong Kong (current costs are set out in *fig. 2*).

Cooling measures are not always effective. Shanghai has seen several rounds of market-cooling taxes, along with restrictions on multiple-home ownership. In spite of slowing price growth, appetite for real estate remains unsatisfied and new development continues apace. The introduction of mortgage caps in Dubai is likely to do little in a market fuelled by cash buyers.

Overall, it appears that property taxation does have a suppressing effect. There is strong evidence from Hong Kong and Singapore that transaction numbers are suppressed by the introduction of stamp duty. But it seems likely that the price impact of this is relatively temporary, cooling values while the adjustment to the new tax is being made, but not altering the subsequent long-term trajectory of prices. ■

Counting the cost

Variations in location and business sector can dramatically alter the price of global real estate

DIFFERENT WORLDS

The cities featured in the Savills Live/Work Index include established 'old world' cities alongside 'new world' contenders

OLD WORLD CITIES

New York
London
Paris
Tokyo
Sydney

NEW WORLD CITIES

Rio de Janeiro
Dubai
Moscow
Mumbai
Singapore
Hong Kong
Shanghai

Most international comparisons of corporate real estate focus on a very narrow measure of cost, often just comparing the price per square metre or square foot of prime Grade A office space. This headline measure is inadequate because the reality of business premise occupation is that it varies greatly from city to city and from sector to sector. By no means will all businesses occupy the same types of space in the same locations within a city. In addition, the amount of space taken up by the same people will vary enormously from country to country. Office workers are more likely to be densely packed in Tokyo, for example, but use far greater space in Dubai.

In addition to commercial property costs, employers are also very interested in the cost of living accommodation for their workers. They will bear in mind that it may be easier to attract top talent to the best, most vibrant and exciting cities but that those cities also need to be liveable. Upward pressure on wages may be particularly strong in locations where the cost of residential accommodation is high.

The total Savills Executive Unit (SEU) measure of accommodation costs takes all of this into account, as well as the additional costs of occupying property, such as local taxes and rates.

TAKING THE LEAD

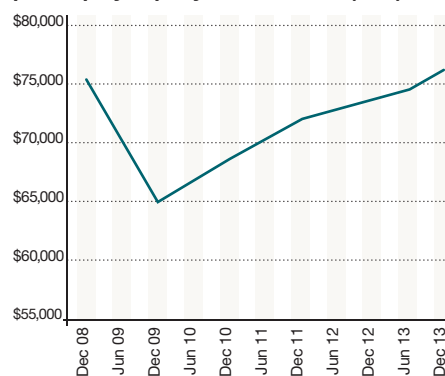
Hong Kong is the world's most expensive city in which to locate employees, ranking ahead of London, which is virtually on a par with New York. These cities have spent the past two years vying for second place – some way below Hong Kong. Paris completes the

list of the top four cities, where it costs more than US\$100,000 a year per employee to rent living and working space.

The average live/work expenditure for all 12 world cities (*see fig. 3*) reveals that it now costs just under US\$76,000 a year per employee to rent residential and office space in a world city. This cost has risen 21% since 2009, when most world city rental markets bottomed out. Hong Kong is 1.6 times more expensive than Singapore, which has almost exactly average world city rents, as do Tokyo, Moscow and Dubai. The cheapest cities in our survey are Rio and Mumbai, which are 60% cheaper than the average and less than a quarter of the price of Hong Kong.

While total costs remained broadly stable across the index over the past year, there were exceptions. Costs rose by a stratospheric 41% in Dubai, albeit from a low base, to rank the city as the seventh most expensive. We expect that this rise will mean the high accommodation standards, in terms of the

FIG. 3: World city average live/work costs per employee per year 2008-2013 (US\$)



Source: Savills World Research

SHUTTERSTOCK

SAVILLS LIVE/WORK INDEX

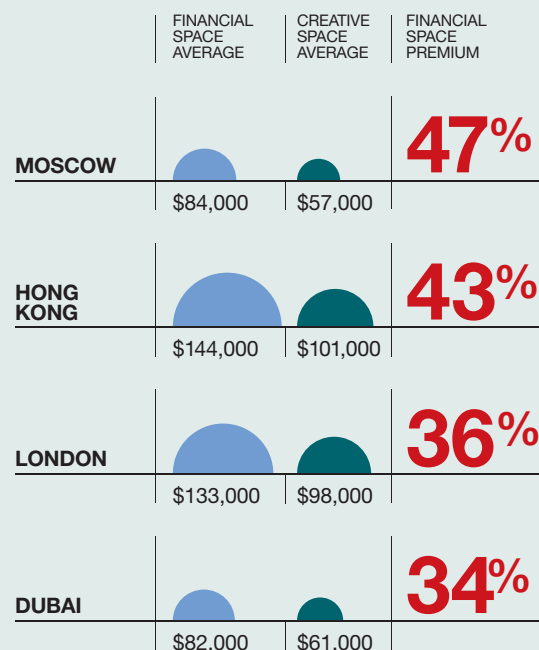
Ranking the cost of renting
residential and commercial
space in 12 global cities

| Rank | Live/work cost per employee per year | Live/work cost change in 2013 |
|------|--|-------------------------------------|
| 1 | HONG KONG \$123,000 | -1% |
| 2 | LONDON \$115,000 | 2% |
| 3 | NEW YORK \$112,000 | 2% |
| 4 | PARIS \$107,000 | 2% |
| 5 | SINGAPORE \$76,000 | 0% |
| 6 | TOKYO \$74,000 | 1% |
| 7 | DUBAI \$72,000 | 41% |
| 8 | MOSCOW \$70,000 | 4% |
| 9 | SYDNEY \$60,000 | 2% |
| 10 | SHANGHAI \$44,000 | 0% |
| 11 | RIO DE JANEIRO \$30,000 | 2% |
| 12 | MUMBAI \$28,000 | -12% |

Source: Savills World Research

LIVE WORK

FIG. 4: The financial space premium still persists



office space occupied, may start to reduce in response. By contrast, total live/work accommodation costs fell by 12% in Mumbai during 2013, which ranks as the cheapest location. Hong Kong costs also fell modestly in 2013, by 1%, although not nearly enough to knock it off its number one perch.

These findings go some way to demonstrate the rebalancing of the world's economies as the more mature 'old world' cities show stable growth in this recovery cycle. 'New world' city growth has slowed markedly, although this has been slightly counterbalanced by the emergence of the new entrants – Rio and Dubai.

In the second half of 2013, 'new world' office costs rose by 7.6%, while 'old world' residential costs grew by 4%. Rents in the office markets of 'new world' cities have been, on average, below their 2005 levels but are now picking up momentum. In contrast, 'old world' rents did not fall as far and have since recovered, albeit more slowly than the 'new world', to above 2005 values.

MAKING SPACE

Generally, the cost of space occupied by creative industries (including tech companies) is lower than that of financial service companies (*see fig. 4*). However, this discount varies significantly across world cities, being virtually non-existent in Paris and Sydney, while Moscow, Hong Kong and London have alternative office space in the creative/tech sector at much lower rents, which reduces total live/work costs by over a third to nearly half that of financial sector costs.

This highlights the folly of measuring only headline rents – the top rents in prime locations – in order to establish corporate

occupancy costs. For example, a tech company in Paris and New York will be paying more than it would in Hong Kong, despite the fact that financial sector rents in Hong Kong are the highest.

Our 'financial sector premium' measure is a good indication of how heterogeneous business-space markets in our world cities are. It is easier to find cheaper space in some of the cities with high headline rents than it is in some of the cities that look cheapest by the headline rent measure.

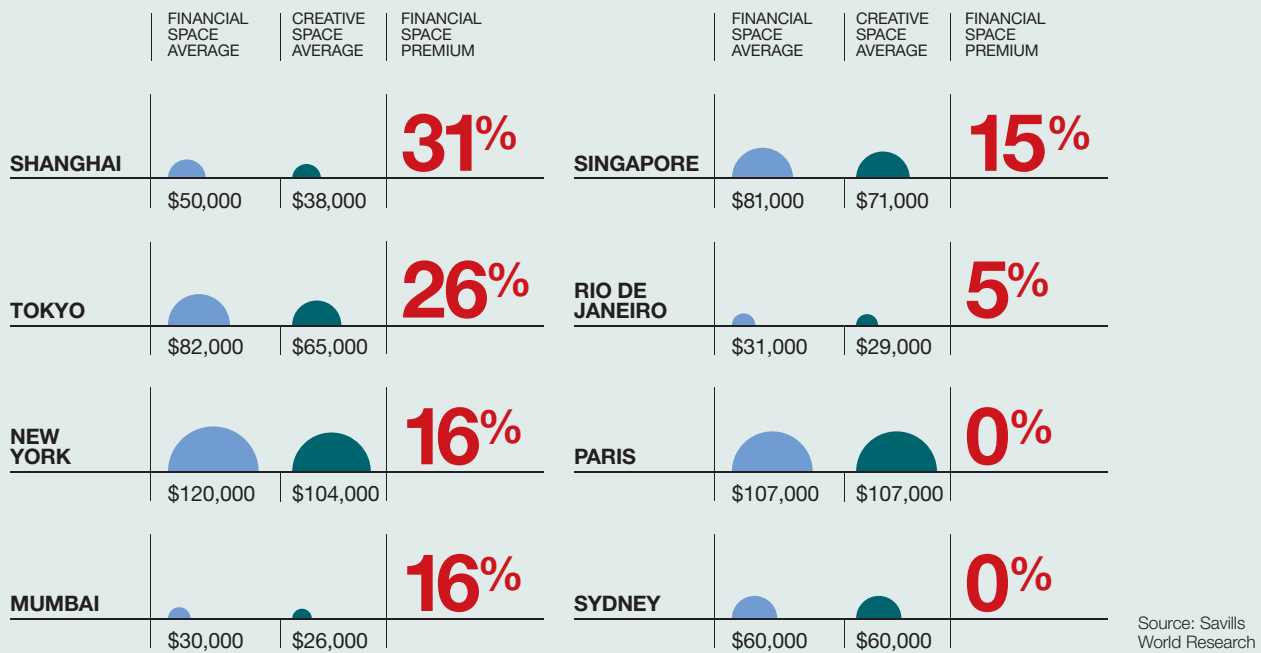
Hong Kong is the world's most expensive city in which to accommodate financial sector staff, who each occupy live/work space costing an average of US\$144,000 a year, but it is only the third most expensive for creatives. Paris, meanwhile, ranks fourth most expensive for financial services companies, but is the most expensive for tech and creatives. London is second most expensive for accommodation costs in the financial sector – with a per person cost of US\$133,000 – but this is a premium of 36% over the city's creative sector space, where it ranks only fourth in our world city cost league.

The biggest financial sector premium is seen in Moscow, where Russian money is once again returning to invest and has pushed up demand for space in the city. Similar forces also seem to be at work in Dubai, where the impact of Middle Eastern cash can be seen in a market that has shown significant growth, despite cooling measures.

41%
The rise in total
real estate costs
in Dubai in 2013

CURRENCY EXCHANGE

Exchange rates are an important additional factor that impacts directly on the assessment of global live/work costs. Savills World Cities Index is always measured in local currency



and then converted into US dollars at current prices so that the impact of exchange rate fluctuations are eliminated. However, for both investors and occupiers who operate and/or remunerate expatriates and other employees in a non-local currency, the impacts of these fluctuations are important.

The effect of currency movements has exaggerated the cost changes in different world cities over the past five years (*see fig. 5*). The strength of the Chinese renminbi and the Singapore dollar mean that cost increases have been amplified – in fact they have nearly doubled.

Meanwhile, cost falls in US dollar terms have been much greater in Tokyo and Mumbai than in their local currencies. The huge nominal increases in Rio have also been significantly ameliorated by the weakness of the Brazilian real.

It is not just currency fluctuations that cause uncertainty for corporate occupiers in world cities. Market variations also make a difference (*see fig. 6*). Here, we have measured how cost growth, together with its variability, has differed between the world cities since 2009. It shows that the more predictable and low growth markets have been those of Tokyo, Sydney and Paris, while high growth and unpredictability have been amply demonstrated in Dubai and, to some extent, Hong Kong.

From an investor's point of view, given that rental income across residential and commercial properties makes up a high proportion of the live/work index, the best markets with high, stable growth have been Rio, New York and Moscow, while the worst has been Mumbai, with low overall growth masked by a great deal of volatility. ■

FIG. 5: Live/work cost change by currency 2009-2013

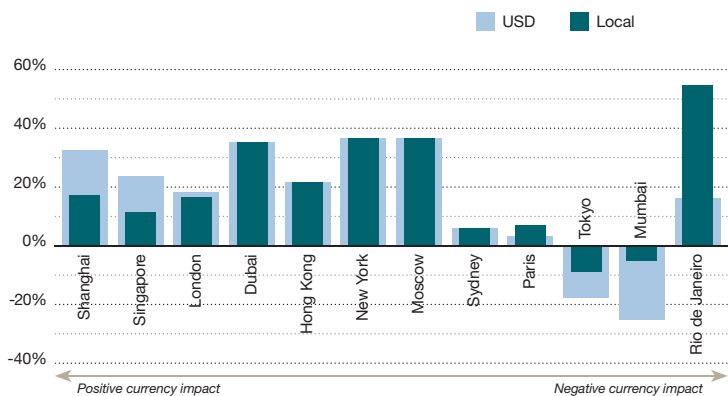


FIG. 6: Live/work cost increases and stability 2009-2013



**1 HONG KONG**

Population (urban area)
Persons per ha
No. of buildings over 150m
Density/building height

7,200,302
65
293
Mid/High

**2 LONDON**

8,308,369
53
12
Mid/Mid

**3 NEW YORK**

8,336,697
106
230
High/High

**7 DUBAI**

Population (urban area)
Persons per ha
No. of buildings over 150m
Density/building height

2,106,177
16
203
Low/High

**8 MOSCOW**

11,977,988
108
24
High/Mid

**9 SYDNEY**

3,908,642
19
28
Low/Mid

Urban identity

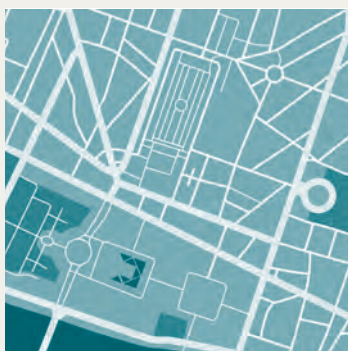
A city's character is closely related to its real estate values

URBAN FORM is at the heart of a city's identity. Street layout and building densities, coupled with the amount and arrangement of open space, has a direct impact on residents' quality of life, a city's economic prosperity, and the ability to conduct social, political and cultural activity. It is a particularly important factor in real estate value as occupiers are attracted by – and will pay for – these attributes.

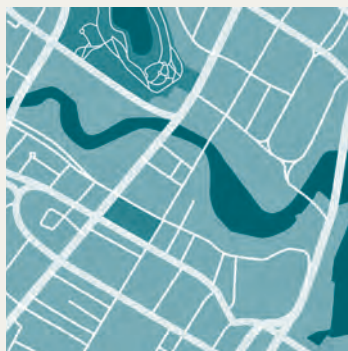
Our 12 cities have distinctive qualities. Dubai has developed rapidly but is, surprisingly, characterised as among the least dense urban forms. Tall buildings in this city are as much about making a statement as

making the best use of land: Dubai has 203 buildings over 150m in height (35–40 storeys) but a population density of only 16 people per hectare. High rise does not necessarily mean high density.

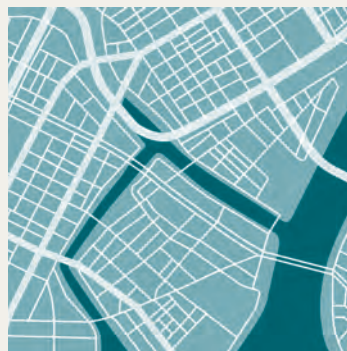
New York's distinctive grid pattern is both high density (106 people per hectare) and high rise (230 buildings over 150m). Hong Kong boasts the most tall buildings of our 12 cities (293 over 150m), which is a necessity given its mountainous terrain and lack of developable land. London's relatively dense network of streets, squares and parks achieves 53 people per hectare, while Haussmann's Paris manages 37. ■



4 PARIS
10,413,386
37
16
Low/Mid



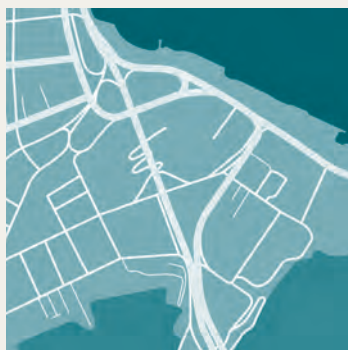
5 SINGAPORE
5,233,927
73
69
Mid/Mid-High



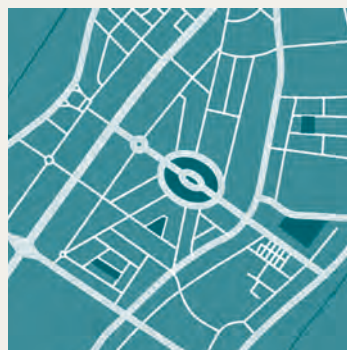
6 TOKYO
8,967,665
145
113
High/Mid-High



10 SHANGHAI
17,836,133
68
116
Mid/High



11 RIO DE JANEIRO
6,323,037
50
5
Mid/Mid



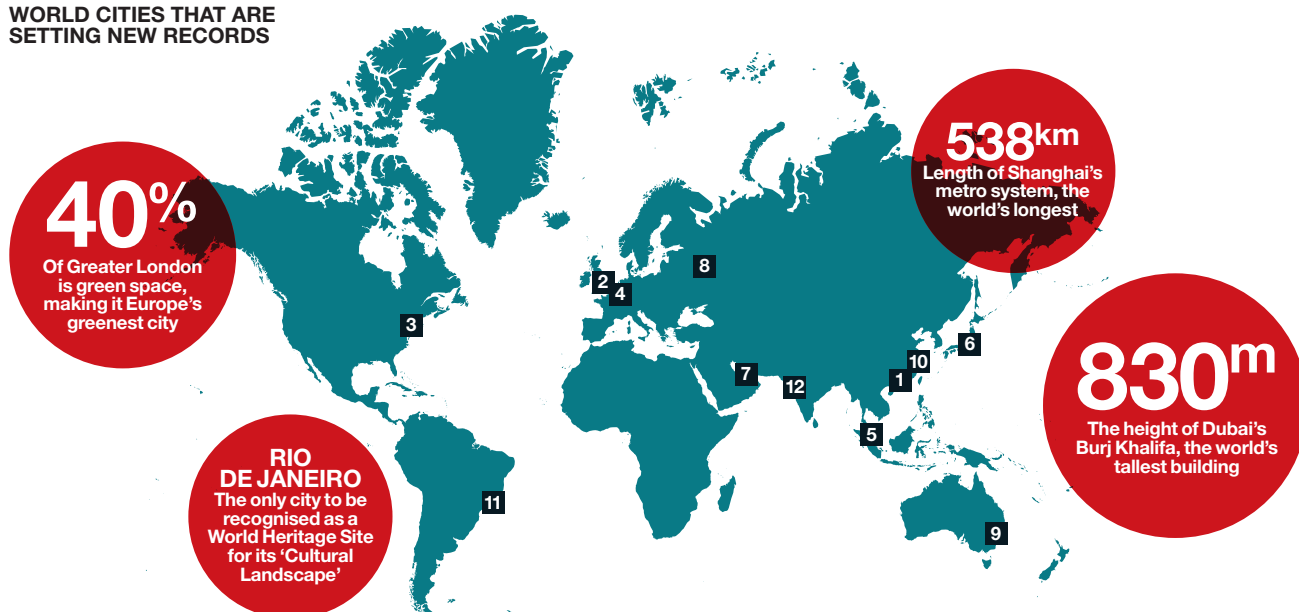
12 MUMBAI
12,478,447
207
44
High/Mid

EXPERT VIEW

‘The look and feel of each city has a direct impact on property prices’

YOLANDE BARNES
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WORLD CITIES THAT ARE SETTING NEW RECORDS



Taking the temperature

As concerns grow about affordability, we reveal which cities are overheated

The weight of money that has pressed on many of the 12 world cities since quantitative easing took hold in 2009 has led economists and politicians to ask whether real estate bubbles have been created. Large numbers of residents in these cities have also become concerned, so political pressure is growing to curb what is seen by many to be a problem. But are the markets really as overheated as some commentators suggest?

Our analysis indicates that many concerns for the mainstream residential markets, in particular, are overdone and, although some of our world cities may look very expensive in relation to the countries in which they sit, this is not indicative that all of the markets are overheated.

DO RENTS REVEAL VALUE?

In our last world city analysis, we started to look at this issue by examining the cities where residential rental growth was not keeping pace with capital growth.

6.1%

The gross yield on New York residential real estate in 2013

We assessed whether the resulting low yields looked sustainable by reference to the prevailing rate on government bonds.

We have updated this analysis again as we think it is a revealing measure of fundamental value (*see fig. 7*). But this time we have looked across the board at rents paid in commercial markets as well as residential (*see fig. 8*).

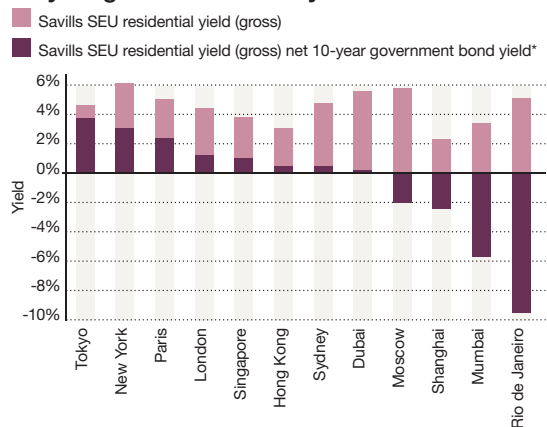
By this measure, which takes the Savills Executive Unit (SEU) as its basis, Tokyo, New York and Paris look 'safe' or even good value to investors. Sydney, London and Singapore show little scope for further capital growth without further rental growth, but are not yet overheated. Meanwhile, Rio, Mumbai and Shanghai all look particularly vulnerable and may now be overheated.

While this evidence might be viewed with concern, especially in those 'new world' cities that are most affected, it is worth considering that it may be reasonable to see real estate as a safer, lower risk investment than 10-year government bonds in certain jurisdictions. In those locations where tenants might be viewed as less likely to default on their debt than governments, it would be perfectly reasonable to accept a lower yield on property than on bonds.

This is where 'old world' real estate, particularly prime markets

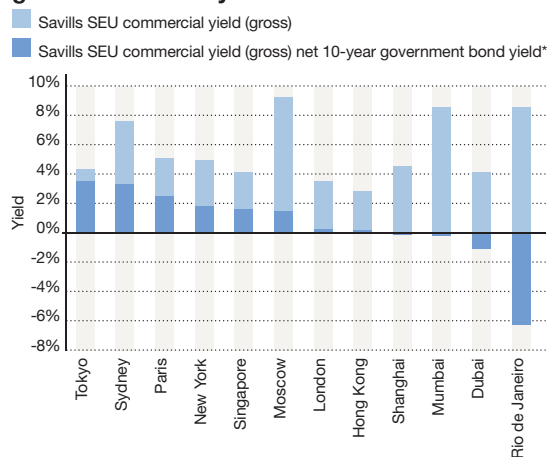


FIG. 7 Gross residential yields net of 10-year government bond yields



Source: Savills World Research

FIG. 8 Gross commercial yields net of 10-year government bond yields

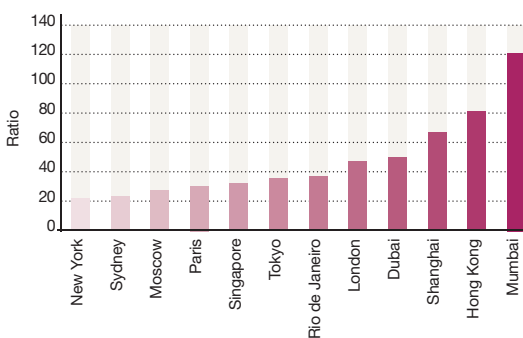


Source: Savills World Research



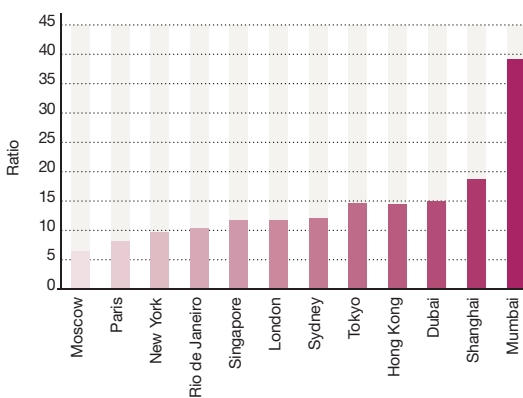
Singapore remains one of the more affordable world cities.

FIG. 9 Ratio of average GDP per capita to all residential property capital values



Source: Savills World Research and World Bank

FIG. 10 Ratio of average GDP per capita to mainstream house price values



Source: Savills World Research and World Bank

in Anglophone countries with good legal title and transparent markets, have taken on a 'safe haven, store of wealth' status with many private buyers.

CAPITAL AFFORDABILITY

One of the key metrics that is used by economists to measure the affordability of housing markets is the ratio of house prices to average incomes. We have increasing concerns as to the efficacy of this measure as average incomes are of decreasingly low relevance to capital values in cities where the majority of the population rent, only the wealthiest buy, mortgage lending (especially at high multiples) is rare and where affordability is determined by the amount of equity that is available to those buyers.

We have used city GDP per capita as a measure to proxy the amounts of equity (through stock investments, bonuses and IPO payouts, etc.) that are more likely to be available to buyers in each city. Together with the average house price value of our SEU in each location, we have identified how 'hot' each city market looks (*see fig. 9*).

Once again, Mumbai and Shanghai look vulnerable and Hong Kong more so than it did by the yield measure, but Rio looks far safer. London and Dubai residential prices look on the

higher side of average but are still some way off the hottest cities.

This analysis becomes further nuanced when we consider that the pressure of global money on world city real estate markets emanates from the wealthiest in society rather than across the board. It would appear that the hottest markets are the prime, luxury ones

2.3%

The gross yield on Shanghai residential real estate in 2013

most associated with ultra high net worth global investors.

We have conducted the same GDP per capita analysis for non-prime, or mainstream, residential property in each of our world cities and this shows a very different story (*see fig. 10*). Only Mumbai looks distinctly overheated, while Shanghai looks hot.

When it comes to the ordinary non-prime residential markets, London and Rio appear to be cool, while Dubai and Hong Kong look merely fully valued.

For investors in particular, there may be huge advantages in shifting focus from prime to secondary markets worldwide. ■

The big picture

The most significant economic and financial factors currently shaping world city real estate markets

The real estate markets in our 12 world cities are directly shaped by larger economic, political and business factors. The continued rebalancing of the financial system, the global concentration of wealth and the ongoing activities of central banks have all played a significant role in the performance of real estate in the world cities.

Here, we set out the three key themes that are creating challenges – as well as opportunities – for property investors.

GROWTH FACTOR

The redrawing of the global economic map is having a significant impact on real estate markets. 'New world' economies, notably China and India, continue to see weakened growth, while older industrialised economies, including the US, UK and Japan, are recovering more strongly than many commentators anticipated. As a result, the runaway real estate growth of 'new world' cities has abated and in some cases, such as Mumbai and prime Hong Kong, has now reversed.

Meanwhile, the emergence of new economies, as personified by Dubai's revival as a high-growth real estate centre, is indicative of a market that is recovering following very full corrections after 2008.

The picture is made more complex by the economic performance of world cities, which make a substantial contribution to a country's GDP (*see fig. 11*). In some cases, city growth has been much greater than country GDP growth, with London and New York being good examples in recent years.

So perhaps it is not surprising that many of our world cities have seen much higher growth in their real estate values than their surrounding nations and, in a significant number of cases, there are active concerns that real estate markets have become overheated.

THINKING BIG

It is notable that the biggest real estate deals of the past year were concentrated in just a handful of cities. Seven of our 12 world cities were in the top 20 most active investment markets (*see fig. 12*). What's more, it would appear that the higher up the world rankings a city is, and the higher the level of international

45%

Of global big ticket real estate buyers now originate in China

investment in a city, the more likely this is to be the case (*see fig. 14*). This is particularly true where large quantities of private wealth are focused on property – and inflating markets in particular.

When it comes to the biggest buyers and sellers, the US tops the sellers' league, while Chinese developers and property companies dominate the buyers' league (*see fig. 13*). Generally speaking, West is selling to East, and private wealth and sovereign wealth funds are buying from banks and institutions.

BANK ON IT

Quantitative easing has had a big impact on asset prices worldwide, and real estate has been no exception. Its influence has been felt in three ways.

First, liquidity has been injected into the investing sector of the economy. By creating an active demand for bond investments, money has been put in the hands of investors. These investors have then searched for further asset classes in which to put their money. Real estate has been a recipient of this.

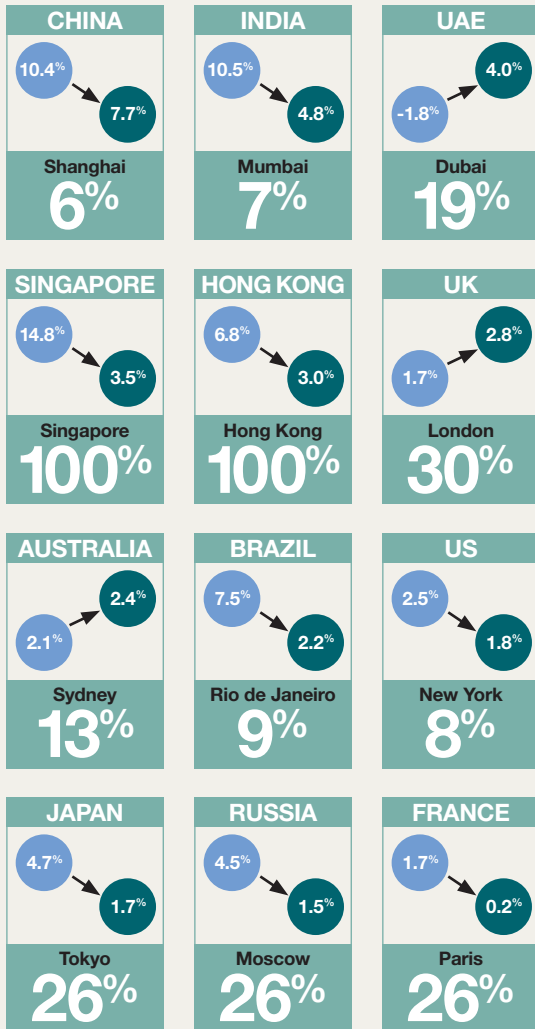
Second, by removing a significant supply of bonds from the investment markets (by buying and keeping them) central banks have decreased the supply of lower-risk investment vehicles available for purchase and thereby encouraged investors to seek alternative asset classes. Real estate has often been seen as a viable alternative. Activity tends to have been concentrated in well-known, prominent world cities.

Third, by increasing the scarcity of bonds, yields have been driven down (an intended consequence to keep interest rates low) and this has had a knock-on effect on asset prices as lower yields mean inflated asset prices. This applies to a wide variety of assets, including real estate.

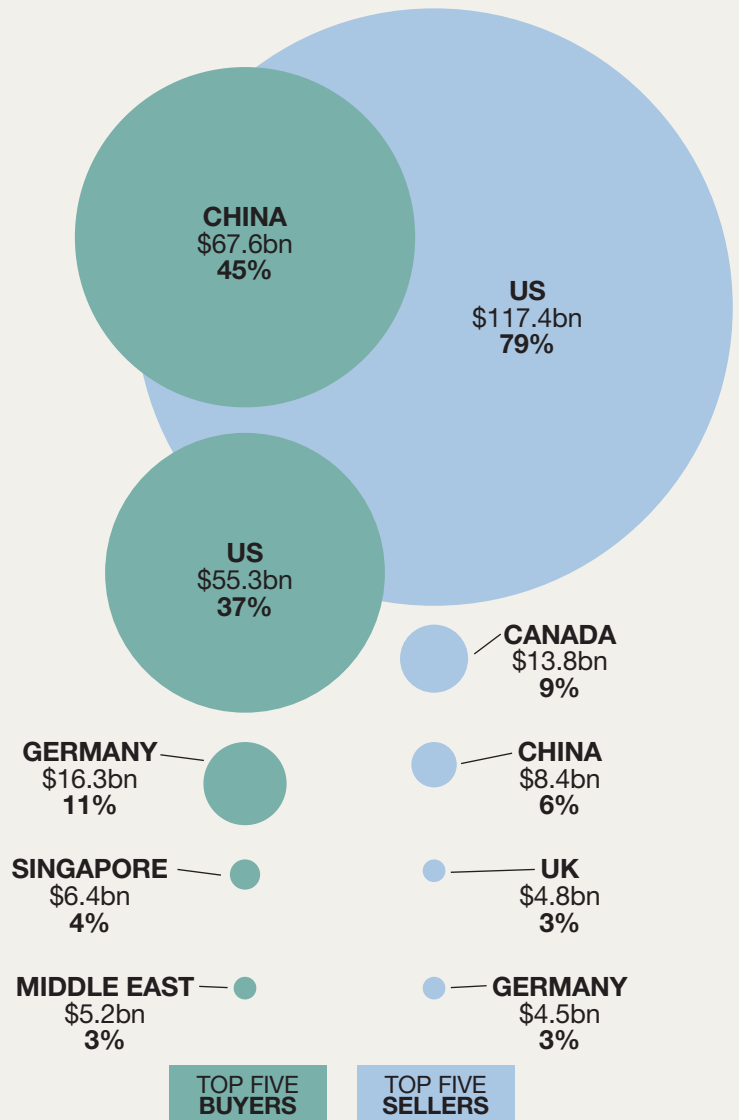
However, the capital value growth of real estate has been confined to particular places and types of property. The most well known and internationally welcoming cities have been the main recipients of this inward investment, especially if they have transparent markets, good legal title and represent safe havens for those seeking to preserve wealth. ■

FIG. 11: Country and world city GDP (metro area)

Country GDP growth % 2010 → % 2013
 % City GDP as a percentage of country GDP



Source: World Bank, IMF, Brookings Institute

FIG. 13: Top real estate buyers and sellers by country of origin

Source: Real Capital Analytics, year to February 2014

FIG. 12: World Cities ranking in the top 20 most active real estate investment markets

| Ranking | Market | Volume (billions) |
|---------|----------------|-------------------|
| 1 | New York Metro | \$60.5 |
| 2 | London Metro | \$48.2 |
| 3 | Shanghai | \$46.8 |
| 4 | Tokyo | \$39.6 |
| 9 | Hong Kong | \$21.8 |
| 11 | Paris | \$20.0 |
| 13 | Singapore | \$17.4 |

Source: Real Capital Analytics, year to February 2014

\$60.5bn

Volume of investment in the New York City metro area, year to February 2014

FIG. 14: Key elements that make a world city

| City | Savills overall ranking | Global competitiveness (Economist Intelligence Unit rank) | Global connectivity (GaWC category) | Prominence (Google hits, millions) | International visitors (overnight stays, millions) |
|----------------|-------------------------|---|-------------------------------------|------------------------------------|--|
| New York | 1= | 1 | Alpha++ | 2,740 | 11.52 |
| London | 1= | 2 | Alpha++ | 441 | 15.96 |
| Paris | 3= | 4 | Alpha+ | 415 | 13.92 |
| Singapore | 3= | 3 | Alpha+ | 273 | 11.75 |
| Hong Kong | 5 | 4 | Alpha+ | 656 | 8.72 |
| Tokyo | 6 | 6 | Alpha+ | 192 | 5.80 |
| Shanghai | 7 | 43 | Alpha+ | 152 | 6.50 |
| Dubai | 8 | 40 | Alpha+ | 83 | 9.89 |
| Sydney | 9 | 15 | Alpha+ | 129 | 2.80* |
| Mumbai | 10 | 70 | Alpha | 96 | 4.80** |
| Moscow | 11 | 58 | Alpha | 76 | 4.50*** |
| Rio de Janeiro | 12 | 76 | Beta- | 98 | 1.40 |

Source: Economics Intelligence Unit 2012, Globalization and World Cities Research Network 2012, www.google.co.uk at February 2014, MasterCard Global Destinations Index 2013.

*Tourism New South Wales International Visitor Survey, year to June 2013, foreign overnight visitors. **India tourism Development Corporation, 2011, foreign tourist arrivals. ***Moscow Tourism Committee, 2011, foreign tourist arrivals.

12 Cities

From the most expensive real estate to the best value locations,
we take an in-depth look at the world's leading property markets



1

HONG KONG

\$123,000*



Concerted measures to cool the real estate market are now taking effect

EXTREMELY HIGH capital values make Hong Kong by far the most expensive of the 12 world cities in which to rent any type of accommodation or to buy a residential property.

But recent concerted efforts by the government to cool the local property markets appear to be beginning to take effect. The '3D' policy, a triple-whammy of Double Stamp Duty, Buyer's Stamp Duty and Special Stamp Duty, is suppressing housing transaction volumes and forcing vendors to cut asking prices if they have to sell (many don't and are simply staying put). Luxury transaction volumes in the five main prime districts on Hong Kong island hit their lowest levels since 2000 and the Savills World City Ultra Prime Hong Kong Index recorded falls of 3.4% in the last half of 2013.

Rents have also suffered. The weakening financial sector, caused by regional economic jitters, has contributed to a downward trend. Rents fell by 1.1% in H2 2013 and in the prime rental markets by

4.3%. Banks have been cutting housing budgets for expatriate employees, while stamp duties for sellers have encouraged more investors to let out their stock.

-62%

Fall in the number of luxury residential transactions in 2013 compared to 2012

This growing supply has forced landlords to accept lower rents.

The mainstream market, by contrast, has managed to hold up comparatively well. Interest rates remain low and demand from first-time buyers is strong.

Savills expects prime Hong Kong residential values to fall by between 5% and 10% by the end of 2014. With further price falls on the horizon, many purchasers are adopting a wait and see approach, further suppressing sales volumes.

EXPERT VIEW

'Growing supply has forced landlords to accept lower rents'

YOLANDE BARNES
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*Rankings based on the annual live/work accommodation cost per employee per year for the Savills Executive Unit (SEU). See page 3 for SEU definition and research methodology.

EXPERT VIEW

‘We anticipate more interest in secondary, high-yielding assets’

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2

LONDON
\$115,000

The capital is a powerhouse driving the UK's economic performance

LONDON IS riding high and is at the heart of the UK's economic recovery. Its residential markets have recorded double-digit annual price growth (12% in the SEU) for the first time since the market downturn. Some sub-markets have performed particularly strongly. Fulham, the first stop for buyers moving out of prime central London, and Marylebone, which attracts domestic and international buyers thanks to its urban village lifestyle, both saw above-average growth in 2013.

In common with London's residential markets, its domestic buyers are much more active in the office investment sector and are now the dominant buying group in certain London locations – for the first time since 2007.


\$731^{bn}

The contribution London makes to the UK's GDP

To date, risk-averse international investors have tended to focus on prime, low-yielding stock, but we anticipate there will be more interest in secondary, high-yielding assets in fringe locations as the economic recovery becomes even more ingrained.

In London's office markets, take-up is being driven by the growth in the Technology, Media and Telecoms (TMT) sector, which accounts for the largest share of take-up in the West End and is now a staple source of demand in the City – Canary Wharf, for example, is actively re-profiling its future building offer to suit TMT companies.

London is anticipated to be among the best performers in the coming years across a number of real estate asset classes in the world cities we monitor.

| | |
|---|---|
| 3 | NEW YORK \$112,000 |
|  | An urban renaissance is attracting the global tech industry to the Big Apple |

NEW YORK constantly jostles with London at the top of global city rankings. The same is true of our live/work index, with London recapturing the second place from New York by the thinnest of margins. The cost of renting housing and office space for the same group of people in each city is almost identical, leaving little scope for one to out-compete the other.

The Big Apple has seen residential rents grow by 36% since 2009 and capital values by 31%. In the past two years, however, capital values have grown at a faster rate than rents, driven by record low levels of inventory. While yields have moved from 6.9% to 6.1%, New York remains attractive from an income-return point of view.

New York City has been at the centre of America's urban renaissance in recent decades. The city's crime rate is low, new and innovative public spaces are being created, such as the Highline, and the waterfront is being opened up. The city is now even considered a desirable place to bring up children, out-competing the suburbs and attracting returning empty-nesters.

New York's renaissance has gone hand in hand with its dominance of the global tech

industry. A five-hour flight from the West Coast, or seven hours from Europe, the city offers a vibrant urban environment and the kind of alternative space so desired by tech start-up companies.

'Silicon Alley', clustered around the Flatiron District, SoHo and Tribeca, and Dumbo in Brooklyn, are all areas experiencing surging demand for small and medium-sized office space. Office rents for the creative/tech company are up 33% from a December 2010 low. This is a higher rent increase than the 20% for financial office space. The costs of offices of a type and in locations favoured by creative industries are the highest of our

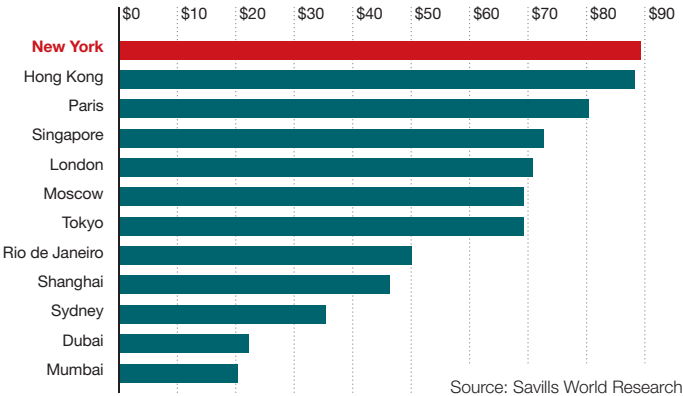
12 cities on a \$ per square foot basis (see chart below).

The downside risks for New York are a shortage of suitable accommodation, both residential and commercial. Many large banks are splintering and downsizing, demanding smaller, bespoke spaces. As a consequence, the midtown office market, dominated by large, corporate headquarters, has remained relatively flat. A dearth

33%
Increase in creative/tech industry office rents between 2010 and 2013

of new supply in the residential markets is a legacy of the wider downturn, with younger New Yorkers particularly squeezed by high rents.

Cost per square foot of creative office space (US\$)



Previous page:
The market in Hong Kong is cooling.
Above left:
London has seen a strong performance.
Right: New York is attracting tech industries.



4

PARIS

\$107,000



**Political and economic uncertainty
continue to affect the market**

FRANCE JUST avoided another recession in 2013, its economy growing by 0.3%. Tax increases and weak household spending, coupled with volatility in the Eurozone, have impacted negatively on Paris's real estate markets.

Apprehension dogs property markets as discussions about taxing high incomes continue. This has particular impact at the top end of the residential market, but also has knock-on effects on relocation decisions in the private corporate sector. While residential values are down 2.1% across the SEU overall in 2013, they fell 5.7% in its super-prime residential market over the same period.

75%

**Proposed tax on salaries
exceeding €1 million**

In spite of this, Paris continues to see a flow of buyers from the Middle East seeking a safe haven in light of continued unrest in their home region. Paris boasts the kind of large, lateral apartments favoured by such buyers, at cheaper prices than London. If it weren't for perceived tax threats, euro jitters and a less transparent market, Paris would be competing much more strongly with London for inward investment in prime real estate.

Property for first-time buyers in Paris is expensive and in low supply. Residential sales volumes are still low but are anticipated to recover somewhat when vendors accept lower prices.

In the office sector, rents are rising in central locations as companies start to return, having experimented with cheaper but less productive peripheral and out of town locations. Office costs among our SEU increased by 8.5% in the last six months of 2013 alone.

EXPERT VIEW

**'Concerns
about future
taxation are
restricting
inward
investment'**

YOLANDE BARNES
Savills World Research
ybarnes@savills.com





| | |
|---|--|
| 5 | SINGAPORE \$76,000 |
|  | Residential values have weakened in a challenging real estate market |

LIKE HONG KONG, cooling measures have had an impact on Singapore’s residential markets. New home sales volumes were down 37% in 2013, while the resale market was hit even harder, with volumes down 51%. With developers and vendors holding stock rather than accepting price cuts, residential capital values grew by just 0.4% in H2 2013. The Additional Buyer’s Stamp Duty has proved an effective measure in slowing the market.

Rental values fell by 0.3% in the final half of 2013. The rental market faces challenges in the coming year as the overseas workforce is tightened. Applications for Employment Passes are expected to become more difficult when a new policy requiring jobs to be advertised to locals first comes into

effect in August. Consequently, Singapore’s rental market is turning in favour of tenants, a trend likely to be magnified by an anticipated stream of new supply coming to the market.

Nonetheless, the city-state’s fundamentals should see it win out over the long term. In the office market, rents are up and occupancy rates are rising. Singapore ranks highly for infrastructure, business environment and governance, as well as international reputation. The government has unveiled a city masterplan with bold proposals for three new districts and a new town.

It is this kind of proactive management that will underpin the real estate market going forward. We believe Singapore still offers potential to investors looking for a stake in Asia in the longer term.

| | |
|---|--|
| 6 | TOKYO \$74,000 |
|  | Abenomics is fuelling a new wave of investment in Tokyo’s residential market |

THE RESIDENTIAL market in Tokyo is gaining momentum and recorded a price rise of 4% in 2013 as Abenomics took effect, although this is modest by the standards of some fast-growing cities. In the short term, the market has been distorted by the April consumption tax rise, increasing from 5% to 8%. This has led to a short-term rise in buying and construction activity.

Buyers are also acting ahead of anticipated price increases, which are the result of improving economic conditions, and a view

\$1.5bn
Amount the IOC expects the 2020 Olympics to bring to Tokyo’s property sector

that mortgage interest rates are on the verge of rising.

In the residential rental market, prices have bottomed out and there are signs of modest price growth (0.4% in H2 2013), but any recovery will be dependent on how successful the government is at fostering income growth. Tokyo is attracting a new wave of Asian investors due to its relatively cheap residential capital values (a third of the cost of Hong Kong), stable rental income, strong yields (4.7%) compared to other major Asian cities and a weaker yen. There are no restrictions on overseas buyers and, from an institutional standpoint, Japanese lenders are eager to extend terms to quality foreign sponsors. Cross-border acquisitions made up approximately 10% of total investment in Tokyo’s residential sector last year, up from a low of 6% in 2011.



The 2020 Tokyo Olympic Games will help to maintain the momentum of Abenomics through the medium term. The majority of new infrastructure for the games will be focused around the Tokyo Bay area, on a relatively low-density string of reclaimed islands. A wave of new condominium development is expected to follow here, taking advantage of new investment in infrastructure and public amenity.

Far left: Paris is affected by uncertainty.
Top: The market in Singapore has softened.
Above: Tokyo is gaining momentum.

7

DUBAI

\$72,000


Learning from dramatic boom and bust to become a confident world city

DUBAI ENJOYS a strategic position in the Middle East and is a city of superlatives: it boasts the world's tallest building (Burj Khalifa); the largest mall (The Dubai Mall); man-made islands and huge logistics hubs. Its population has more than tripled since 1995 as the city has pursued a strategy of reducing reliance on oil and energy to position itself as an international centre of trade and business, as well as tourism.

Dubai's property boom and bust has been well documented. The emirate was opened up to foreign property ownership in 2006. Fuelled by cheap credit and speculation, prices more than doubled. But the market was hit hard by the credit crunch. Residential values fell by 60% between 2008 and 2011, office

rents declined by 62% over the same period and almost half the construction projects in the UAE were put on hold or cancelled.

The city's rapid rebound has surprised many, leading to talk of another bubble. With political turbulence intensifying elsewhere in the Middle East, Dubai has cemented its position as one of the few safe haven destinations in the region.

Prices have already appreciated 67% since their 2011 low, with annual growth of 52% in 2013 – by far the highest of any of our 12 cities (*see chart opposite*).

Following its extreme real estate boom and bust, there are a number of things Dubai is doing differently this time round. The government introduced cooling measures in the second half of 2013 in a bid to



EXPERT VIEW

'Global property ownership is raising standards for Moscow's prime residences'

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8

MOSCOW

\$70,000


Real estate markets have globalised, but will recent events curb growth?

THE MOSCOW residential market recorded modest price growth of 2.2% in 2013, as transactions rose a quarter over 2012 levels. Interest in domestic real estate among wealthy Russians had been increasing prior to the crisis in Ukraine. For Russians, Moscow prime residential property was seen as a comparatively safe investment. It remains to be seen how it will be viewed following recent events.

Multiple home ownership among the world's wealthy means that buyers have come to expect the same level of service and comfort from a new home in Moscow as they might do in London or Monaco, for example.

This even extends to architecture and design: a substantial new development on the edge of Razzdory, just outside Moscow, offers wealthy Russians English-style mansions and landscaping modelled on Regent's Park.

The legacy of industrial areas in central parts of Moscow presents a significant opportunity for redevelopment to both residential and office use. This will help to support the general expansion of the city's prime markets as a number of high-profile schemes become available for sale in the coming year.



52%

Residential capital value growth recorded in 2013

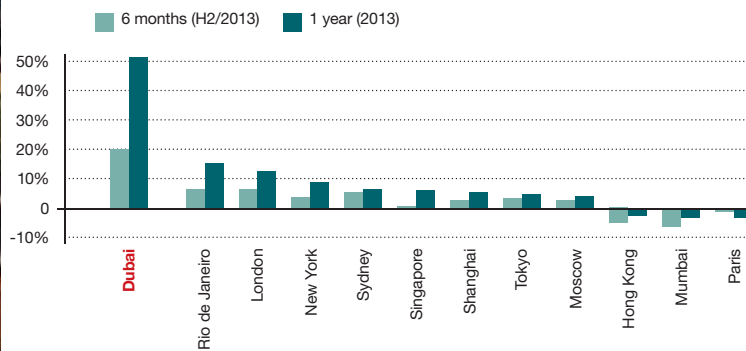
WORLD
CITIES
INDEX

reduce speculation in property. These included mortgage caps and the doubling of property transfer fees from 2% to 4%, as well as a clampdown on 'flipping'.

Dubai has won the bid to host the World Expo 2020, which is

anticipated to generate 277,000 new jobs and inject US\$40bn into the economy. As Dubai establishes itself as a confident world city, underlying economic growth will drive the emirate's real estate markets going forward.

World city residential capital value growth



Source: Savills World Research



THE RESIDENTIAL market in Sydney experienced a surge in price growth in the second half of 2013. The value of the properties held by the SEU grew by 5.2%. Demand is currently outstripping supply, with low interest rates and continued demand from Asian buyers both contributing to continued price increases. Off-plan sales have been particularly strong, with new schemes often selling out on the first weekend of public launch.

The first-time buyer market in Sydney has also been buoyant, aided by grants for new homes, while existing homeowners and investors are fuelling demand in the resale market.

In the office sector, Sydney continues to be the primary location for the head offices of the majority of Australian companies. It is also traditionally the most sought after, a fact highlighted by relatively strong prime property yields and rents.

The city is particularly reliant on finance and business services for tenants and has seen rising vacancy rates resulting from consolidation in the sector. Nonetheless, rents remain relatively stable.

Top left: Dubai has seen very strong growth. **Far left:** Buyers are targeting prime property in Moscow. **Left:** Sydney off-plan sales are strong.

9

SYDNEY

\$60,000

Shortage of supply and continued interest from Asian buyers are fuelling price growth

WORLD
CITIES
INDEX
10 **SHANGHAI**
\$44,000

New development continues apace, despite general market cooling measures

IN SPITE of cooling measures, the Shanghai market continues to record modest price growth. Both residential new build and resale prices achieved new highs in 2013.

New development continues apace. The city's residential land market was extremely active in the second half of 2013, with competitive land auctions pushing prices to new records. Major developers such as Vanke, China Overseas, Greenland, Poly and Wanda were particularly active.


Small price falls have been recorded in the rental market, down 1.1% in the last half of 2013, which is the result of high supply.

With recent policy measures already factored into market dynamics, the government may need to announce further measures to send a signal to the market and rebalance its long-term direction.

These potential new measures may include the reform of land supply and financial innovations, such as REITs.

In recent years there has been a trend for multinational corporations to seek 'returnees' for positions within Shanghai – Chinese nationals currently studying and/or working overseas who are looking to return to China. They are employees who have the benefit of Chinese citizenship, coupled with experience of living and working abroad, and are positioned for a much higher 'success rate' when settling into new roles.

It is a trend that is having a direct impact on real estate in the city. The property preference for these returnees tends to be for large units, as some secondees may have been accustomed to large homes while living overseas.

11
RIO DE JANEIRO
\$30,000

Wealth creation is driving the market

BRAZIL WAS one of the big global success stories in the first decade of the new millennium. With its bountiful natural resources and a growing middle class, as well as increasing foreign investment and credit, the economy expanded rapidly. GDP grew by 7.5% in 2010, but by 2012 growth had dropped to just 0.9%. The economy is predicted to grow by 2.5% in both 2013 and 2014, while the government battles rising inflation by increasing interest rates, which now stand at 10%.

Compared to some of the other fast-growing emerging economies, Brazil's real estate market does not yet look overheated. Commercial yields currently stand at 8.5% and residential yields are at 5.1%. As more and more Brazilians are lifted into the middle classes, the demand for housing continues to grow.

Rio de Janeiro has been the real success story of Brazil's economic emergence. It was once a city plagued by crime but tougher policing has helped to pacify the drug-controlled favelas. As a result, the adjoining neighbourhoods have experienced rapidly appreciating prices.

The city has been enjoying significant infrastructure investment in the run-up to



Main picture: Mortgage indebtedness is low in Rio.
Above left: Investment in new build residential property remains key to Shanghai's economy.
Right: Oversupply is a problem in Mumbai.

two global sporting events – the World Cup this year and the Olympics in 2016. Both of these will undoubtedly help to raise the city's international profile. It is no surprise that Brazilians are returning to Rio in large numbers. The city is now growing at a faster rate than São Paulo.

The rate of annual house price growth in Rio de Janeiro peaked at 40% in 2010, slowing to 15% in 2013. This is much more in line with underlying occupier demand, matching rates of growth in rents. However, mortgaged indebtedness is low and credit control is strong, so the prospects for a substantial downward price correction seem relatively remote in the current climate of growing wealth creation.


While São Paulo is now Brazil's financial capital, Rio de Janeiro still boasts a major financial district. Several multi-national corporations are based here – a legacy of the city's days as the country's capital.

Rio is also home to a significant number of oil and gas companies, as well as telecommunications, entertainment and media organisations. Office rents appreciated rapidly between 2010 and 2011, growing by 37% in a single year, although they have since fallen by 14%.

40million

The number of Brazilians who joined the middle class between 2005 and 2011



| | |
|---|---|
| 12 | MUMBAI \$28,000 |
|  | Further significant price corrections are likely as investors withdraw |

MUMBAI IS facing a huge oversupply of residential stock and the market has failed to absorb new projects launched in the city. Wider political and economic uncertainty has seen investors withdraw from the sector.

Developers have attempted to protect themselves by limiting new project launches and offering sales incentives, but the market is fundamentally swinging in the buyer's favour. Affordability is poor, while yields are low in relation to government bonds, both indications of the potential for more downward price correction – particularly if rental growth fails to increase substantially.

The value of residential property in the SEU fell by 5% in H2 2013. The commercial markets have been impacted by the scaling back or withdrawal of some multi-national

corporations. Office costs fell by 3.6%, bringing annual falls to 8.2%.

India's economic growth has slowed drastically in the past few years. GDP growth of 4.5% was recorded in 2012/13, down from a peak of 10.5% in 2010.

General elections, due in May, are another factor contributing to uncertainty in the market. With GDP growth expected to improve modestly to 4.9% in 2013/14, medium to long-term prospects for Mumbai real estate may be positive, but not before a more significant price correction has occurred. ■

-8.2%
The fall in Mumbai office costs during 2013

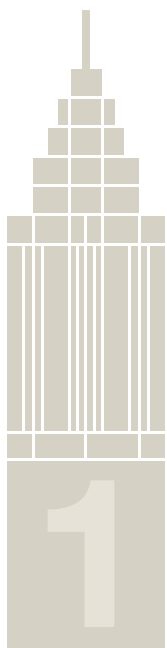


On the horizon

Seven predictions about the future of global real estate

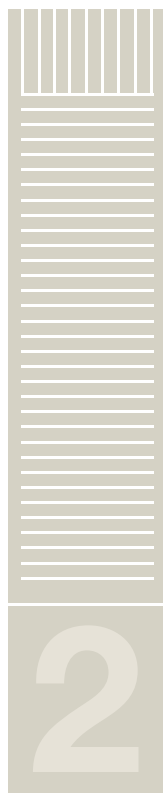
CAPITAL FLOWS

As the tapering and eventual demise of quantitative easing takes effect, the global growth in asset prices will inevitably slow. In particular, less money will flow into prime markets. We expect to see rental growth and capital growth realign.



TIME FOR GROWTH

We predict that secondary and even tertiary markets in our world cities could offer superior growth prospects compared to prime markets over the next five years.



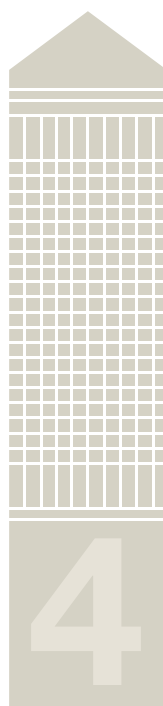
BACK IN BALANCE

We expect more even growth between our 'old world' and 'new world' cities in the medium term as emerging and recently emerged economies slow and old industrialised economies undergo repair.



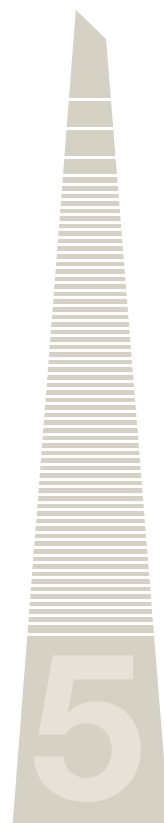
SIGNS OF STRESS

With bond yields and interest rates likely to rise soonest in Asia, rather than the industrialised West, it is in this region that we expect to see the most stress in overstretched markets in the short term.



A SOFT TOUCH

Rental growth and softening, or even falling, capital values in some cities, such as Hong Kong, will make markets appear less overheated over the next few years.



GOOD VALUE

Some of the second-tier cities – seen as good alternatives to the premier league world cities in those countries with strengthening economic growth – could start to rise in popularity with both investors and occupiers as they are seen to represent better value.



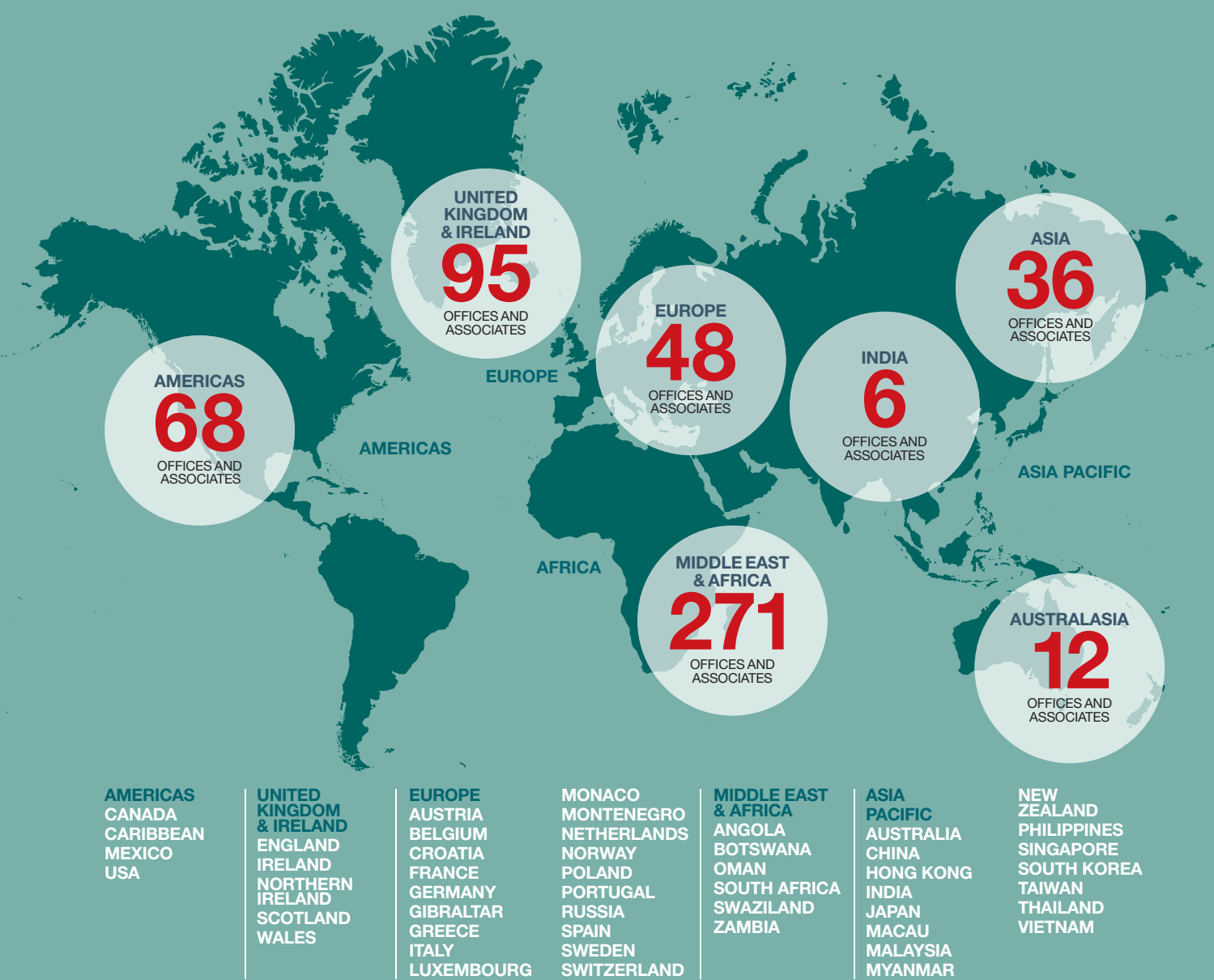
NEW ARRIVALS

It seems likely that the cities exhibiting the highest capital and rental growth over the next five years will lie outside this study. By 2018, we could be looking at 15 or 20 world cities. The ones to watch include major metropolises in up and coming economies, which include Istanbul, Hanoi, Kuala Lumpur, Jakarta and Bangkok, plus many large, second-tier cities in the same countries that few in the West have ever heard of.



Savills global presence

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